

Sector Rating: Overweight

Key data

Average FY13 PER (x)	9.21
Average FY13 PBV (x)	1.46
Average FY13 Dividend Yield (%)	2.56
Sector 3 months avg vol (HK\$m)	2,282

Source: Bloomberg, ABCI Securities

Net income growth in 1-3QFY12 (% YoY)

Zoomlion	16.74
Lonking ¹	-76.08
First Tractor	2.84
Sany Int'l ²	-35.49
ZMJ	31.12
Sany Heavy	-23.43
XCMG	-30.48

1: The growth is as at 1HFY12

2: The growth is as at FY12

Source: Companies

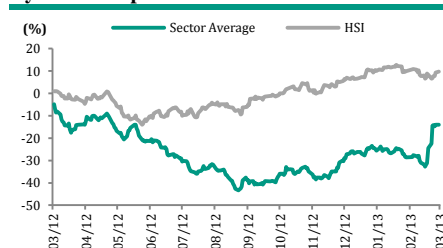
Average share performance (%)

	Absolute	Relative ¹
1-mth	19.78	19.67
3-mth	22.98	18.83
6-mth	40.22	24.65

1: Relative to Hang Seng Index

Source: Bloomberg

1 year sector performance



Source: Bloomberg

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Previous report

Date: February 26, 2013

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Construction and Farm Machinery Capital Goods

Good Start in 2013, Except Coal Mining Machinery

FAI growth in the first 2 months of 2013 was 21.2%, which is faster than the 20.6% for full year 2012. Agricultural FAI is still the spotlight under the favorable policy. Although the railway construction recovery was swamped by the restructuring of Ministry of Railway, the growth momentum for the overall infrastructure construction activities is still on track, as well as the properties industry. Maintain "Buy" on First Tractor (38 HK) and Zoomlion (1157 HK).

Agricultural FAI is a spotlight. The FAI of agricultural and fishery industries grew by 37.4% YoY in 1-2M2013, faster than the average urban FAI growth at 21.2% YoY. Under the favorable agricultural development policy, the demand for agricultural machineries is expected to be boosted up by the subsidy program. We estimate that the total subsidies will grow by 20.9% YoY from Rmb21,500mn in 2012 to Rmb26,000mn in 2013. First Tractor, as leading agricultural machineries makers, will be the leading beneficiary.

Recovery of construction activities remains strong. The recovery of infrastructure construction is on track. The FAI on roadway transportation was up 22.9% YoY in 1-2M2013, recovering from the slow growth of 6.6% YoY for full year 2012. The growth of FAI on water engineering maintained at a relatively high place of 18.3% YoY in 1-2M2013, vs. 19.0% YoY for full year 2012. The properties investment growth accelerated from 16.2% YoY for full year 2012 to 22.8% YoY in 1-2M2013. However, the recovery of railway construction is weakened by the restructuring of Ministry of Railway. The railway FAI growth edged up from 2.4% YoY for full year 2012 to 5.2% YoY in 1-2M2013. At all, the construction activity was backing on track, and the largest construction machinery maker Zoomlion will be a beneficiary.

Fixed assets investment of coal mining industries are shrinking. The FAI of coal mining industries declined by 4.7% YoY in 1-2M2013, dropped from 7.7% YoY for full year 2012. The weak capex on coal mining industry is the largest challenge for the coal mining machinery makers, such as Sany Int'l (631 HK) and ZMJ (564 HK).

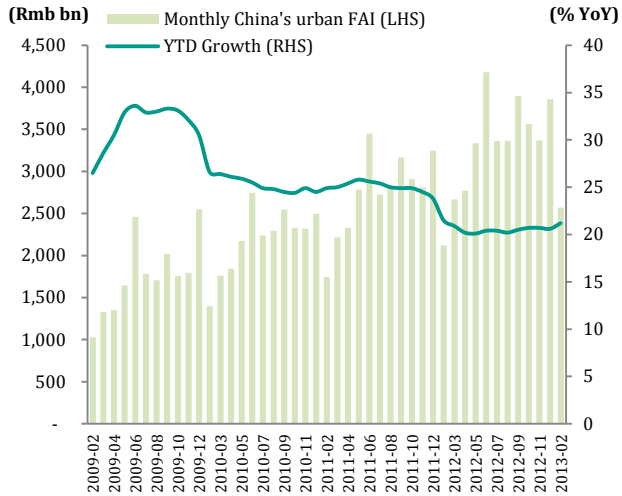
Risk factors: Competition from international players; Credit and liquidity risk, Sustainability of Govt. Subsidy Program

Valuation summary of the sector

Company	Ticker	Rating	Share Price	Target Price (HK\$)	FY13 PER (x)	FY13 PBR (x)	FY13 Yield (%)
Zoomlion	1157 HK	Buy	HK\$10.02	13.96	5.87	1.29	3.40
Lonking	3339 HK	Hold	HK\$2.09	2.00	8.55	0.98	3.50
First Tractor	38 HK	Buy	HK\$7.67	9.27	9.49	1.35	3.15
Sany Int'l	631 HK	Hold	HK\$3.37	3.42	14.73	1.41	1.35
ZMJ	564 HK	Hold	HK\$8.88	10.15	7.85	1.17	2.54
Sany Heavy	600031 CH	N/A	Rmb10.65	N/A	9.68	2.69	2.91
XCMG	000425 CH	N/A	Rmb12.19	N/A	8.16	1.29	1.07

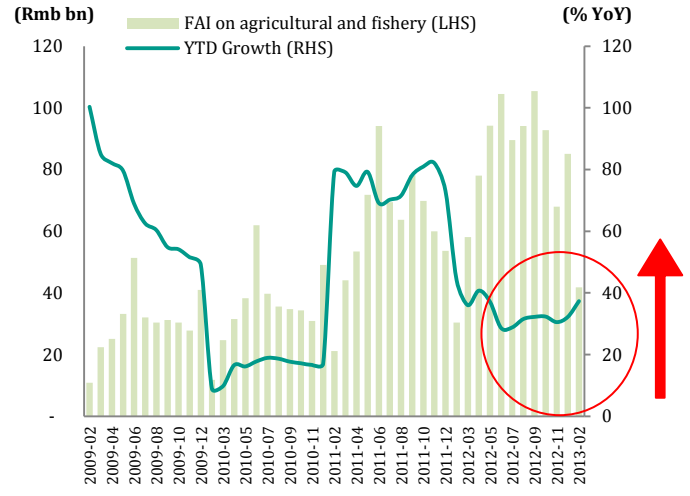
Source: Companies, Bloomberg, ABCI Securities estimates

Urban fixed assets investment in China, 2009-2M2013



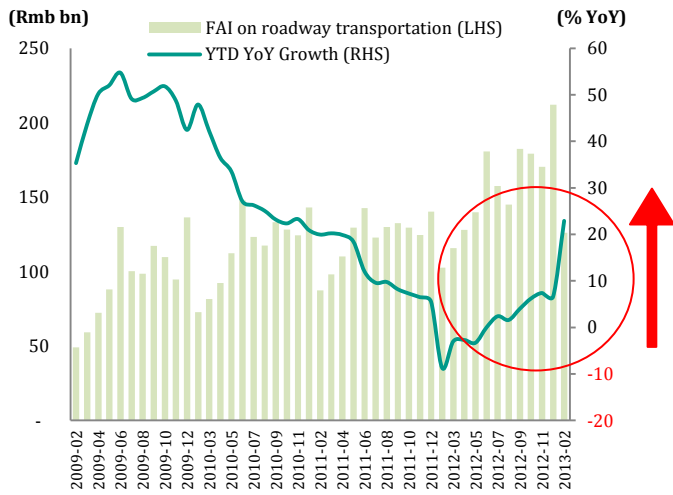
Source: NBS

Agricultural and fishery FAI, 2009-2M2013



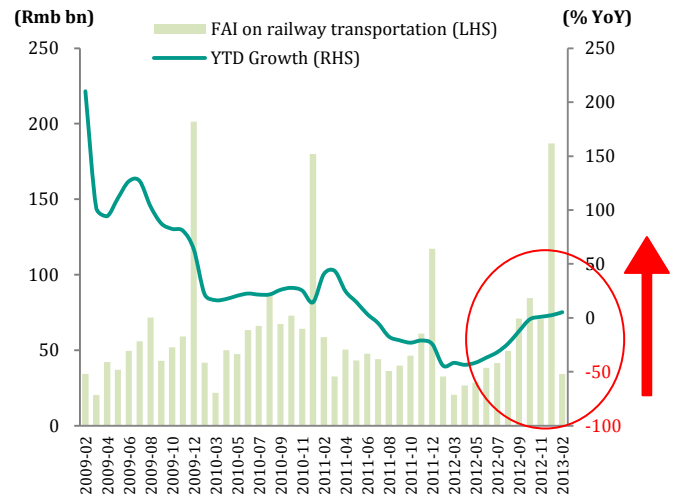
Source: NBS

Roadway FAI, 2009-2M2013



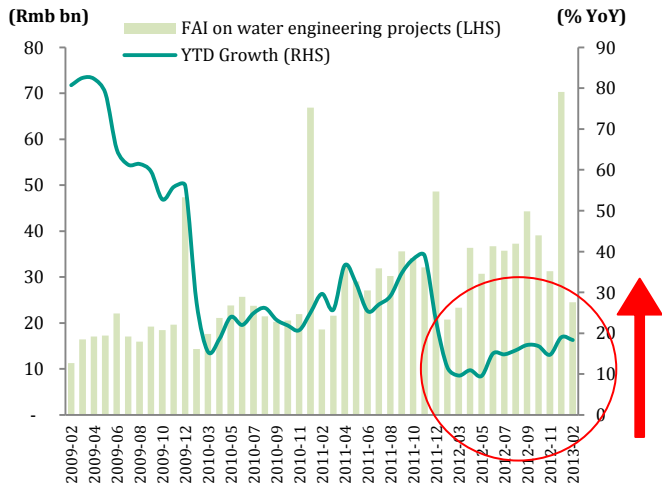
Source: NBS

Railway FAI, 2009-2M2013



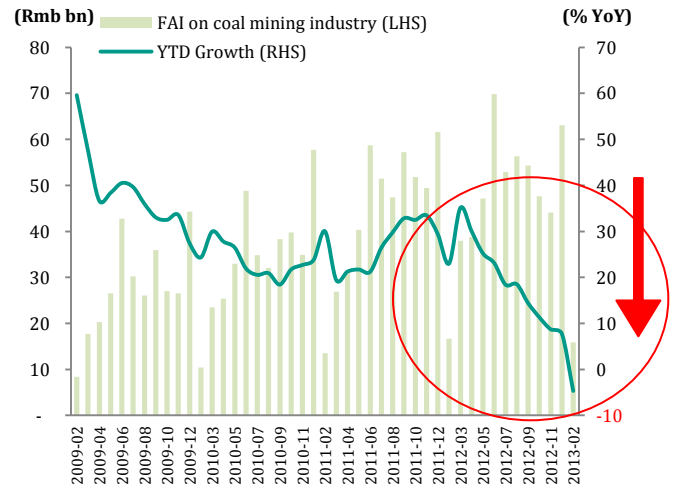
Source: NBS

Water engineering FAI, 2009-2M2013



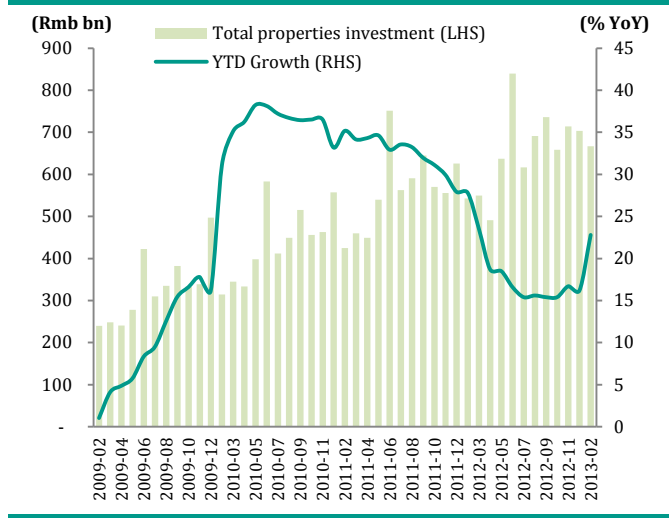
Source: NBS

Coal mining FAI, 2009-2M2013



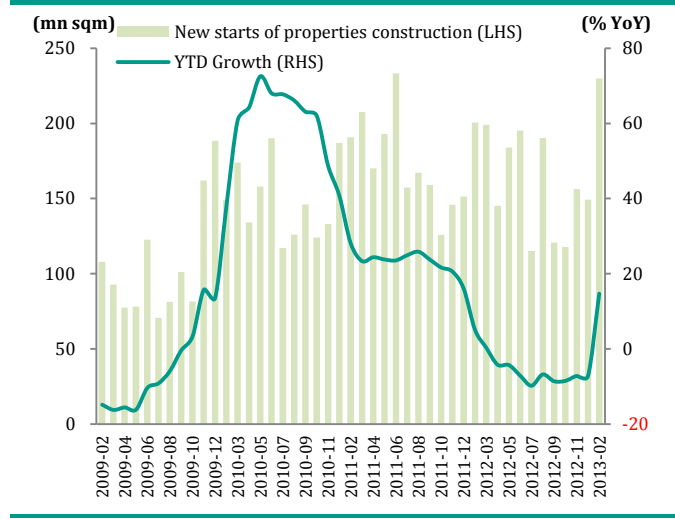
Source: NBS

Properties investment, 2009-2M2013



Source: NBS

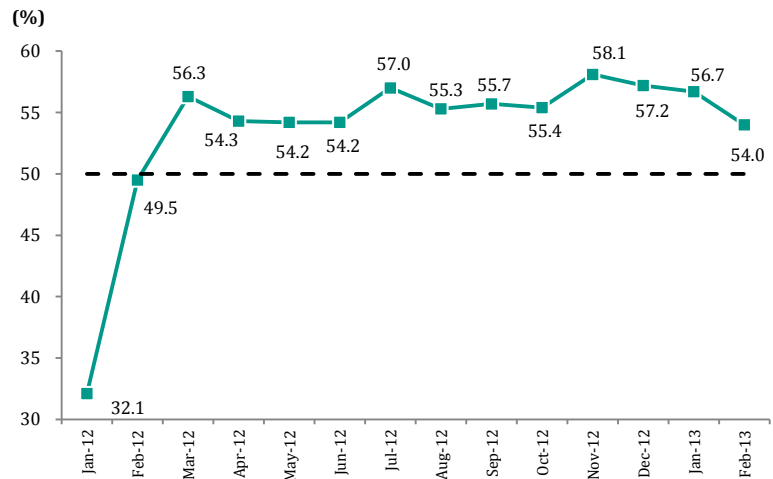
New starts of properties construction based on the construction area, 2009-2M2013



Source: NBS

Sub Index of non-manufacturing PMI: New order index of construction activities

The new order index has been staying above 50% for 12 months. It shows the construction industry is expanding.



Source: NBS

Peer group valuation and earnings forecasts summary of construction and farm machinery sectors

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	459,871	USD	90.51	11.16	9.49	-6.89	17.58	2.71	2.25	36.22	28.19
KOMATSU LTD	6301 JP	177,212	JPY	2235	11.97	11.73	7.64	2.08	1.97	1.79	18.53	13.15
SANY HEAVY INDUS	600031 CH	101,240	RMB	10.65	11.48	9.68	-18.53	18.53	3.45	2.69	34.53	30.21
ZOOMLION HEAVY-H ²	1157 HK	14,329	HKD	10.02	6.98	5.87	10.02	18.81	1.58	1.29	23.10	22.70
ZOOMLION HEAVY-A ²	000157 CH	67,598	RMB	8.63	7.50	6.31	10.02	18.81	1.70	1.39	23.10	22.70
XCMG CONSTRUCT-A	000425 CH	29,710	RMB	11.54	8.62	7.73	-18.41	11.58	1.41	1.22	14.77	15.60
GUANGXI LIUGONG	000528 CH	12,710	RMB	9.05	25.07	16.28	-69.15	54.02	1.08	1.03	3.86	5.42
TEREX CORP	TEX US	29,640	USD	34.52	17.02	12.95	394.63	31.46	1.60	1.42	10.56	13.61
TADANO	6395 JP	10,423	JPY	998	73.03	25.39	-44.83	187.62	1.54	1.44	2.30	6.70
SHANTUI CONST-A	000680 CH	6,580	RMB	4.63	-11.90	12.79	-192.62	-193.06	1.47	1.37	1.25	5.15
XIAMEN XGMA-A	600815 CH	7,433	RMB	6.21	10.93	14.18	-23.24	-22.89	1.14	1.06	10.45	7.51
LONKING HOLDINGS ²	3339 HK	8,945	HKD	2.09	15.98	8.55	-74.07	86.96	1.07	0.98	6.80	12.00
Sector Weighted Average					11.89	10.03	5.22	16.34	2.41	2.02	28.41	23.14
Agricultural Machinery Makers												
DEERE & CO	DE US	274,602	USD	90.88	10.60	10.07	11.06	5.27	3.67	2.96	38.74	39.34
MAHINDRA & MAHIN	MM IN	79,215	INR	904.20	14.26	11.72	19.25	21.67	2.66	2.27	21.10	20.14
CNH GLOBAL NV	CNH US	82,104	USD	43.68	9.00	8.51	3.68	5.79	1.06	0.94	11.99	12.79
FIRST TRACTOR-H ²	38 HK	3,083	HKD	7.67	14.09	9.49	-10.22	48.58	1.34	1.35	9.30	13.00
FIRST TRACTOR-A ²	601038 CH	7,687	RMB	10.37	23.78	16.01	-10.22	48.58	2.26	2.29	9.30	13.00
ESCORTS LTD	ESC IN	1,053	INR	60.20	6.71	4.92	44.88	36.44	0.39	0.39	6.43	7.21
Sector Weighted Average					11.20	10.16	10.72	9.38	2.96	2.44	29.93	30.37
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	52,005	USD	63.13	10.16	9.73	-13.74	4.49	2.19	1.84	34.20	26.91
ZHENGZHOU COAL-H ²	564 HK	2,158	HKD	8.88	7.28	7.85	14.58	-7.32	1.30	1.17	21.09	15.21
ZHENGZHOU COAL-A ²	601717 CH	16,804	RMB	9.77	10.00	10.79	14.58	-7.32	1.79	1.61	21.09	15.21
TIAN DI-A	600582 CH	16,499	RMB	10.89	11.63	9.55	24.66	21.79	2.29	1.90	22.27	21.80
SANY HEAVY EQUIP ²	631 HK	10,464	HKD	3.37	16.83	14.73	-35.50	14.21	1.51	1.41	9.08	9.78
LINZHOU HEAVY-A	002535 CH	5,113	RMB	7.61	14.22	10.42	54.56	36.45	1.50	1.34	10.86	13.28
SUNWARD INTELL-A	002097 CH	4,008	RMB	7.62	54.43	31.75	-71.03	71.43	1.83	1.75	3.36	5.51
Sector Weighted Average					12.81	11.18	-3.81	10.05	2.01	1.73	25.31	20.92
Machinery Part Makers												
CUMMINS INC	CMI US	176,159	USD	119.63	13.63	11.59	0.29	17.66	2.87	2.41	26.17	22.64
WEICHAI POWER-H	2338 HK	58,231	HKD	28.45	12.88	10.62	-36.79	21.30	1.53	1.36	12.19	13.69
TAIYUAN HEAVY-A	600169 CH	10,437	RMB	3.45	345.00	21.56	-93.79	1500.00	1.52	1.42	0.44	6.58
CHINA YUCHAI	CYD US	4,567	USD	15.80	5.85	5.32	-22.64	10.00	0.63	0.59	10.74	11.07
Sector Weighted Average					27.18	11.66	-12.73	80.41	2.46	2.09	21.55	19.66
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	256,918	SEK	99.85	15.14	10.94	21.25	38.43	2.28	2.04	14.15	15.54
ATLAS COPCO-A	ATCOA SS	268,242	SEK	186.60	16.39	15.33	-0.59	6.93	5.60	4.79	43.17	36.34
HYUNDAI HEAVY	009540 KS	117,576	KRW	218000	9.63	8.32	-28.68	15.69	0.85	0.78	9.98	8.47
SANDVIK AB	SAND SS	160,713	SEK	105.90	14.27	12.61	13.96	13.18	3.36	2.94	25.42	24.20
DOOSAN HEAVY	034020 KS	33,166	KRW	44150	7.16	5.49	222.60	30.28	0.91	0.84	11.95	13.70
MANITOWOC CO	MTW US	20,310	USD	19.72	15.45	11.27	65.71	37.15	3.42	2.82	18.33	24.89
ANHUI HELI CO-A	600761 CH	5,466	RMB	8.52	11.44	9.71	-0.67	17.72	1.45	1.31	12.08	12.48
Sector Weighted Average					14.29	12.05	14.94	20.35	3.29	2.86	24.71	22.79
Weighted Average					14.08	10.93	7.31	22.38	2.78	2.37	26.65	23.84
Median					11.80	10.52	-0.63	18.67	1.56	1.41	12.14	13.65

* The data in the table is as at February 8, 2013;

1: The market capital value of the companies are translated into HKD;

2: ABCI Securities estimates;

Source: Bloomberg, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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